

May 12 / Administration of William J. Clinton, 1993

John Sweeney, and Steve Swid; Democratic National Committee chairman David Wilhelm; Edward Rendell, Mayor of Philadelphia and honor-

ary chairman of the event; and Gov. Jim Florio of New Jersey.

Message to the Senate Transmitting the Netherlands-United States Taxation Convention

May 12, 1993

To the Senate of the United States:

I transmit herewith for the advice and consent of the Senate to ratification the Convention Between the Government of the United States of America and the Government of the Kingdom of the Netherlands for the Avoidance of Double Taxation and the Prevention of Fiscal Evasion with Respect to Taxes on Income, signed at Washington on December 18, 1992. An Understanding and exchange of notes are enclosed for the information of the Senate. Also transmitted for the information of the Senate is the report of the Department of State with respect to the Convention.

The Convention replaces the existing income tax convention between the United States and the Kingdom of the Netherlands signed at Washington in 1948 and last amended in 1965. It is intended to reduce the distortions (double

taxation or excessive taxation) that can arise when two countries tax the same income, thereby enabling U.S. firms to compete on a more equitable basis in the Netherlands and further enhancing the attractiveness of the United States to Dutch investors. In general, the Convention follows the pattern of other recent U.S. income tax treaties and is based on the U.S. and OECD Model treaties and recent income tax conventions of both parties. It will serve to modernize tax relations between the two countries.

I recommend that the Senate give early and favorable consideration to the Convention and give its advice and consent to ratification.

WILLIAM J. CLINTON

The White House,
May 12, 1993.

Remarks to Small Business Leaders

May 13, 1993

Thank you very much. Erskine's only been here a day, and he's already become one of us. And you just saw an illustration of Clinton's third law of politics: Whenever possible, always be introduced by someone you've appointed to high office. [*Laughter*]

I want to introduce the people who are here with me: first, starting on my left, Frank Newman, the Under Secretary of the Treasury; and Roger Altman, the Deputy Secretary of the Treasury; Laura Tyson, the Chair of the Council of Economic Advisers. You met Erskine Bowles. And next to Erskine is Andrew Cuomo, the Assistant Secretary of the Department of Housing and Urban Development who, among other things, is responsible for developing and imple-

menting our empowerment zone proposal for cities and small towns and rural areas that are economically distressed and that need more free enterprise.

I'd like to thank all of you for coming, but I'd like to also pay a special word of recognition to the smallest entrepreneurs that are here. These young people are from Theodore Roosevelt Elementary School in Houston, Texas. They are second graders. And shortly after I was inaugurated, in February sometime, they sent me this book. I got your book with all

their letters, telling me what I ought to be doing. "How are you going to stop the violence and crime? If you will, completely stop it." See, everybody wrote me a letter and there are pictures. "Can you keep companies from making guns so we won't have crime?" And it goes on and on. But the reason they're here is that they are really the smallest entrepreneurs. They sold 22,000 candy bars to raise the money to come to Washington. So I think they deserve a hand. [Applause] Thank you.

I want to thank you for taking your valuable time to come here today so that we could talk about the shape of the small business initiatives in the economic program, now well on its way to moving through Congress. So many of you are the best representatives of American small business. For instance, Nancy Alchuleta has led the Mevatec Corporation in Huntsville, Alabama, to compete and win in the world marketplace with a new emphasis on high technology. William Gordon, president of Applied Data Technology—is a high-tech company which has grown from 7 employees in 1986 to over 100 today. Paul Sam, president of Holly Metals—has grown from a custom sheet metal company to the fabrication of metal parts for Boeing and a high-tech composite painting facility.

These are the kinds of things that we need more of in America. As I said yesterday in giving out the Small Business Person of the Year Awards, the United States benefited greatly, particularly in the last 10 to 12 years, from the fact that small business created more jobs than were lost in the large business sector of this economy. It is a little-known fact to most Americans, but in every year of the last dozen, the largest businesses in the country, the Fortune 500, have reduced their employment in the United States by somewhere in the neighborhood of a total of 200,000 jobs. Even as profits increased and productivity increased and stock values increased, the technological advances of productivity led to an actual reduction in the work force, not an increase. For all of the 1980's until the very end of the decade, those reductions were far more than offset by the growing vibrancy of an entrepreneurial economy in America. Indeed, many of the small businesses were contractors and customers and suppliers for the larger businesses in the country.

Then about 3 years ago, the small business job engine began to slow down. And there are any number of reasons why. There was a domes-

tic recession. There is a global recession. The credit crunch in parts of our country plainly contributed to it. The substantial increase in the cost of adding one more employee in terms of Social Security, workers' comp, health care, and other things has certainly led to the use of more part-time employees or asking the existing work force to do more overtime. And you may pay a little more for overtime, but you save all the supplemental costs of hiring the additional employee.

Although things are perfectly rational choices, but what they have meant for the United States is that we've had quite a stagnant unemployment rate, one that mirrors, I might add, every other advanced country in the world. At 7 percent, our unemployment rate is about the same as Western Germany's and still lower than all of Europe; higher than Japan, which has, as you know, a very different sort of economic system than we do. But even there they've had trouble now creating new jobs, and many companies there are having some of the first layoffs they've ever had.

I say that to make the following point: Larger companies, just like the Federal Government, will have no choice but to continue to try to improve productivity and use technology to do more with fewer workers, to increase output per worker. One of the things I'm trying to do here that we're writing into the law, this new budget proposal, is to reduce the size of the Federal Government by attrition by at least 100,000 workers, by increasing productivity and restructuring. But that's what the National Government should be doing.

But if these things are going to occur in our larger organizations, then we have to find a way to preserve the vitality of small business and to increase the capacity of small business to add to the American work force. If everybody in this country who wanted a job had one, we wouldn't have half the problems that we wrestle about all day up here every day. And frankly, you and people like you all over America are the best prospect we have for getting that done. That's why we worked as hard as we could to try to create an economic program that would benefit small business.

Our policy first begins with deficit reduction. The deficit reduction package that the Government has put forward and that the House of Representatives is in the process of coming to grips with now clearly has had a major impact

in driving interest rates down over the long run. Since November there has been a dramatic reduction in interest rates. Home mortgage is at a 20-year low, many other interest rates at historic lows. The business analysts estimate that if we can keep these rates down for several more months the impact will be about \$100 billion released into this economy, principally through refinancing of home mortgages and business loans and other refinancing as well as the direct benefit of the lower costs of borrowing. That's why I always say the best stimulus program that we can give to this economy just to stimulate growth is to keep these interest, and to keep driving down and to keep driving the deficit down.

Yesterday, in an attempt to build up a sense of real confidence that the administration means business and that the Congress will mean business if they pass this program, I proposed that we put all the taxes raised and the budget reductions into a deficit reduction trust fund so that, number one, no tax increase without budget cuts; number two, no tax increase for anything but reducing the deficit. And putting that in a trust fund, I think, will hammer home the determination that we have to bring the deficit down and to try to keep the interest rates down.

The second thing I think we have to do is to recognize that there are some initiatives which need to be taken to try to improve the access to capital for small business. One of the first things this administration made an aggressive effort to do was to deal with the credit crunch that I heard about all over America but especially in certain parts of the United States. We're trying to make it easier for small businesses to apply for and to obtain loans when they are appropriate and needed to expand and create new jobs.

In March, I announced this plan to ease the credit crunch by reducing some excessively restrictive regulations imposed in reaction to the savings and loan debacle. Our plans strikes a better balance, I think, so that we can have both safety and credit availability. Banks have more leeway now to make character loans based on the reputation of the borrower. We also have moved to ease the paperwork burdens because it shouldn't be as burdensome to get a \$25,000 loan as it is to get a \$25 million one and it certainly is, in a large measure because of direct Federal rules and regulations.

We have the Treasury and all the financial agencies of the Federal Government working

on this. We now have an SBA Director who understands it all too well since before he became SBA Director his job was to help other people start new businesses, which is what he did very successfully.

We also know and we're not naive enough to think that just because we announced the policy in March the practice changed in every community bank and every community in this country. We know that hasn't happened. And I have made an offer, and I make it again here today, of requesting the small business community to tell the Small Business Administrator where the plan for easing the credit crunch is working and where it isn't and what we can do to work through that. The Treasury Department can only do so much until it knows where the backlog and the problems are. So we invite your participation to make the policy we announced in March real in your community as soon as can possibly do that.

The second thing that we have done since we've been here is to try to canvass the small business community about what kind of tax incentive would best serve to help small businesses engage in job creation. Yesterday, the House Ways and Means Subcommittee voted to increase from \$10,000 to \$25,000 the maximum amount of new investments that a small business can deduct as expenses every year. This means that when you invest so that your company can grow, you can immediately write off \$25,000 worth of that investment. If that becomes law, it will be directly because of the input of the small business community to this administration as well as to the Congress.

When I ran for President in 1992, virtually all the small business people I met talked to me about how those which were family-owned businesses and commitments of a lifetime would not have much immediate benefit from the capital gains tax, and they asked for some sort of investment credit. That's why I recommended the permanent small business investment tax credit as compared with a capital gains option. After we got here, the small business organization said that, as a practical matter, we would get more bang for the buck and it would be easier for more small businesses if we simply just increased the expensing provisions to \$25,000. That change is directly the result of the input of the small business community in this country. I hope it becomes law, and I hope

you will do everything you can to see that it does become law.

Now, there is a capital gains provision left in this bill which I think is very helpful. It provides a big exclusion from capital gains taxation to help small businesses get started and to invest in completely new projects. That was one put forward by the American Venture Capital Association and sponsored in the previous Congress, among others, by the senior Senator from my State, Dale Bumpers, who's the chairman of the Small Business Committee. I think that should stay in the law; we're working hard to make sure that it does. I think it now has virtually unanimous support.

Finally, we have decided we should try to offer some very special opportunities in a network of empowerment zones and enterprise communities all across America. In the empowerment zones, we're offering small businesses an employment and training credit of 25 percent of the first \$20,000 in wages for employees who live and work in the zones, a targeted jobs tax credit of 40 percent on \$6,000 of the first year of wages for these workers, and an increase in the ability to deduct appreciable property.

All these things are our effort to help communities that are willing to help themselves by developing a long-term strategy to grow through private sector and private-public cooperation. To do that, to attract capital in businesses, I am convinced and I think that you are all convinced that with the size of the deficit we have, there is not enough money in America to have a publicly-funded revitalization of America's most distressed communities.

But wherever in America there are people who are underutilized, there is a market opportunity. Because when people are working up to the fullest of their capacity, then they have money to spend and they create jobs for others. So when I look at all these places in America which for too long have been without businesses on their street corners or in their small towns or in their hamlets, I see enormous opportunity. I see in people whose potential is not fulfilled the opportunity to make free enterprise work again.

We all know there are certain considerable barriers to dealing with that. I'm trying to make some of the high-crime areas much more attractive by simply lowering the crime rate. We know we can do that through community policing.

And I've asked the United States Congress to give us some money to put more police on the street in these communities to help make them safer and lower the crime rate. We know that works; there is clear evidence of that. In New York City alone, after the comprehensive community policing program established by the man who is now our drug czar, Lee Brown, for the first time in 36 years the crime rate actually went down in seven major areas. So we know these things can be done.

We know we have responsibilities to make these areas more attractive. But if this empowerment concept can pass, then it will be more attractive for you and people like you all across America to take that extra risk to go into places where there is an enormous prospect of return if a whole lot of people with no income all of a sudden wind up having income and can be customers as well as employees. And I hope all of you will support the empowerment zones.

We've talked and talked and talked about our cities and our drying-up rural communities for years. Democrats and Republicans, they wring their hands every year, and nothing ever happens. I say, let's try this; let's see if it works. Let's see if we can have a public-private partnership that works. If it doesn't work, we'll try something else. But the one thing that we know doesn't work is more words. We've had more words for years. We've had wars of words from people across political and party and regional lines, and that hasn't worked, and that's not ever going to work. So I hope we can try this and see once and for all whether the Government can create an environment which makes it more attractive for free enterprise to flourish in areas where it hasn't.

Finally let me say again, I appreciate the burdens under which you labor. I recognize that some of you, perhaps most of you in this room, would pay higher personal tax rates under the program I have proposed. I hope you will support it anyway because if we do it right, most Americans will save more in long-term lower interest rates than they'll pay in higher taxes. The country will be much better off if we can pass the expensing provisions, the capital gains provisions, the enterprise zone provisions. If we can make our plan to ease the credit crunch work, then small business in the nineties can once again resume its proper role in America as the true engine of our job growth, and there

will be more people like you with rewarding stories to tell.

And perhaps most important of all, when these kids grow up, they'll have a chance to be just as entrepreneurial as they have been in getting themselves here today.

Thank you very much.

NOTE: The President spoke at 10:50 a.m. in Room 450 of the Old Executive Office Building. In his remarks, he referred to Erskine Bowles, Small Business Administrator.

Exchange With Reporters Following a Meeting With Small Business Leaders

May 13, 1993

Inflation

Q. Mr. President, could you respond to the inflation numbers out today?

The President. Well, you know, I've looked at them over the last couple of years, and I think we have to watch it closely. But there is, at the present time, no cause for long-term concern. I want to watch it, and we will be watching it. But it could be just a blip. There are lots of things that could have produced it. We'll just have to see. We'll wait for a month or so and see what's going on. Unless there's some underlying change in the economy, it's difficult to imagine how we could have a significant upsurge in inflation.

Deficit Reduction and Taxes

Q. Do you think your deficit reduction trust fund will be able to win support on the Hill despite Domenici and Dole and the other Senators criticizing it as a gimmick?

The President. The people that I'm concerned about are the people who were prepared to vote for responsible deficit reduction all along, the moderate to conservative Democrats who are willing to vote for tax increases as long as they know they're going to go to reduce the deficit. Bill Bradley called for the deficit reduction trust fund also, I noted yesterday. And a whole range of House Members from Charles Schumer to Charles Stenholm did. And I think it will help to—more importantly, I think that in the public mind out there in the country, people will see that it's a double guarantee that the money will go where we say it will go. So I still think it's a very good thing to do.

I didn't expect it to move any of the votes of people who say that they won't vote for a tax increase no matter what. But I must say,

the most encouraging thing on that is the interview that David Stockman, who was President Reagan's Budget Director, did in a magazine called the New Politics Quarterly this month where he basically owns up to the fact that the biggest problem with the deficit is that they cut 6 percent of the national income out of the tax base in 1981 in a bidding war. That was twice the size of the tax cut that President Reagan originally intended to offer to stimulate the economy. And he says the impact of that has never been overcome. So all we're going to try to do is redress that with some tough spending cuts. And I think the public mood will be far more supportive.

Q. Will you go along with a 35 percent corporate tax rate?

The President. If that's what comes out of the Congress. I don't know if the Senate will vote for that. We'll have to see. But the changes made by the House Ways and Means Committee don't reduce the overall contribution from the business sector. They just shift the way it comes. And I think that's okay.

Bosnia

Q. Mr. President, do you hold out any hope that the referendum in Bosnia this weekend might result in some sort of face-saving way to get out of this mess?

The President. The issue is not face saving. The issue is life saving. Face saving has got nothing to do with it. The issue is whether the Bosnian Serbs are ready to have a serious peace process that will save lives, recognize that all those people have some right and some way to live in the piece of land we now know as Bosnia-Herzegovina, and confine the conflict so that it doesn't spill over and cause much more,